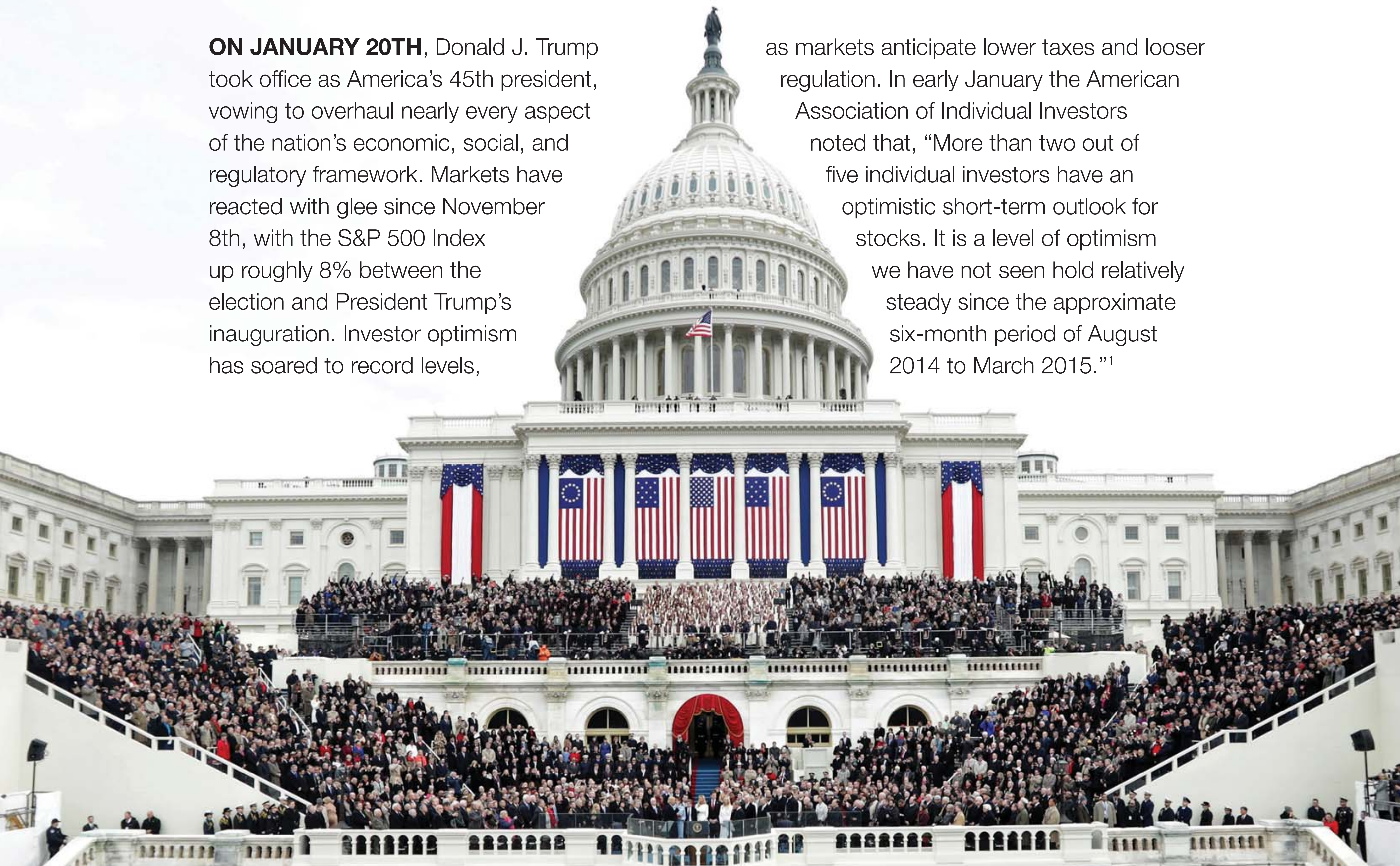
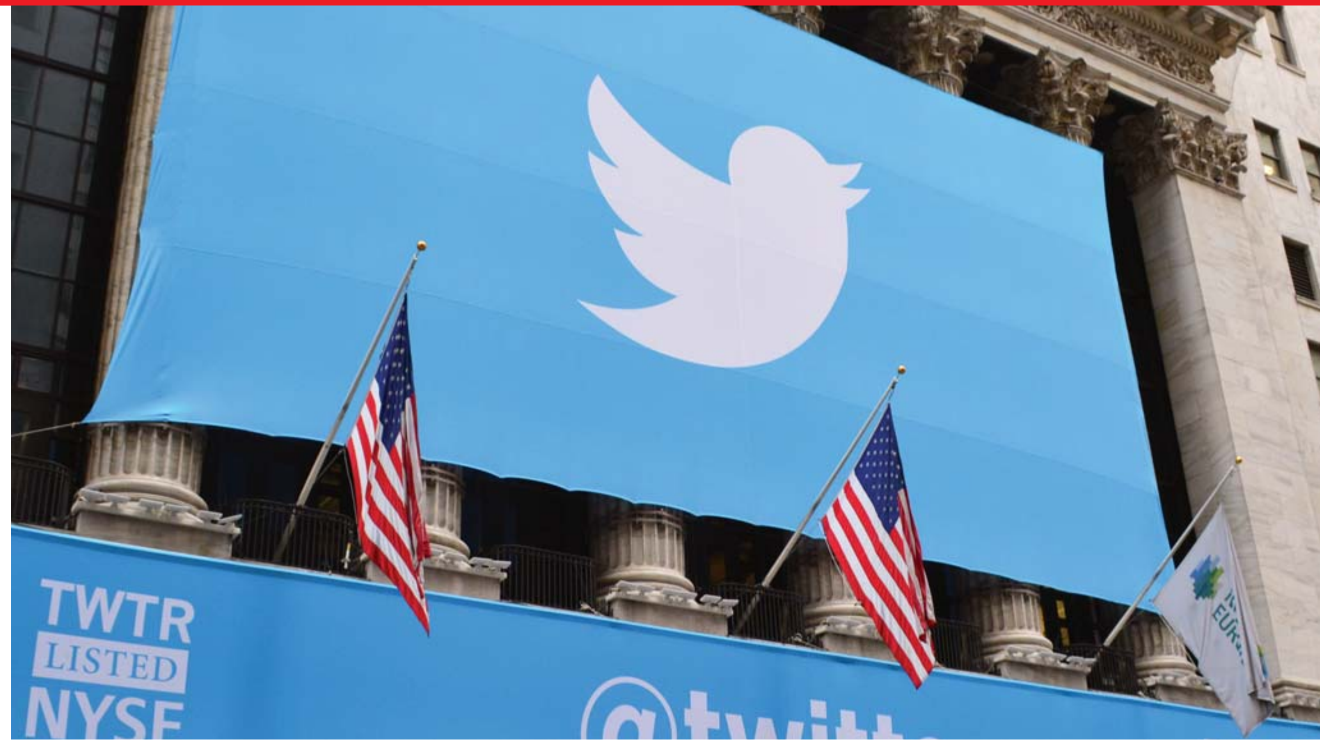
TRUMPED

INVESTING FOR THE NEW PRESIDENCY

ON JANUARY 20TH, Donald J. Trump took office as America's 45th president, vowing to overhaul nearly every aspect of the nation's economic, social, and regulatory framework. Markets have reacted with glee since November 8th, with the S&P 500 Index up roughly 8% between the election and President Trump's inauguration. Investor optimism has soared to record levels, as markets anticipate lower taxes and looser regulation. In early January the American Association of Individual Investors noted that, "More than two out of five individual investors have an optimistic short-term outlook for stocks. It is a level of optimism we have not seen hold relatively steady since the approximate six-month period of August 2014 to March 2015."[1]





"Most of our clients seem remarkably optimistic. I think several were hedging their outlook late in the year, but are starting 2017 expecting to have a solid year," says Matthew R. Crow, ASA, CFA and president of Mercer Capital. He works primarily with investment management and independent trust companies. "The unknowns right now, of course, outweigh the knowns. Looking at an equity market that is already fully priced if not overpriced in most markets, a domestic fixed income market where long term trendlines appear to have rolled over, policy changes on many fronts, and massive currency realignments, you really have to be capable of thinking in four dimensions to keep up with it all. We have heard a lot from the incoming administration, but we have no idea what they actually want to do or will be able to do."

Despite the euphoria, a great deal of uncertainty remains. What will President Trump's economy look like and how will it perform? What can advisors do to help their clients navigate this uncharted territory? We look at eight factors that may affect wealth and financial planning, and what advisors can do to help their clients benefit.

1. Equities on a tear but volatile

Stocks soared in late 2016 after the election and remain near all-time highs on anticipation of a more business-friendly regulatory climate. While the averages are up, individual stocks have been slammed by the incoming president's habit of singling out companies to his 20 million plus Twitter followers. General Motors, Lockheed Martin, the pharma industry, and others have all seen sharp drops when subjected to Trump scrutiny. Even praise from @realDonaldTrump can have adverse impact on specific companies—just ask L.L. Bean.

[1] AAII Investor Sentiment Survey, January 11, 2017.

The twitter effect has become so pronounced that some Wall Street trading desks are using algorithms to immediately buy or sell companies mentioned in the new president's feed. Individual investors can buy a free app from Trigger Finance that alerts them whenever the president tweets about a stock they hold.

Yet experts say that most of the impact is short lived. Warren Buffett, whose portfolios are $11 billion ahead since the election in November, cautions investors not to get too caught up in the noise. "Long-term, the stock market is going to be higher, and I've written that many times. In terms of what it's going to do next year, or tomorrow, I have no idea. The stocks we were buying and selling the day before the election were the same stocks we were buying and selling the day after [the] election," he told Fortune in December.[2]

Even so some short-term caution may be warranted. "It seems like most of our clients think the post-election market results have gotten out over their skis a bit, and are due for a pullback," says Mercer's Crow. "That probably happens while the new administration settles in and we get a better idea of where they're headed. After a few months of that, we should have a better picture of market trends for the remainder of 2017."

The main takeaway? As always, base stock allocations on long-term goals, risk tolerance, and liquidity needs. Diversify widely among companies and industries and keep your eye on the long-term, not day to day stock price movements.

2. Interest rates headed up

The Fed had already signaled higher interest rates before the election and has made one 25 basis point hike since then, in December. That pace is likely to accelerate if President Trump fulfills campaign promises to cut taxes and fund infrastructure development. "We are probably going to see a significant shift from monetary policy stimulus to fiscal policy initiatives, particularly in the area of infrastructure investment at the federal level," Rick Rieder, BlackRock's chief investment officer of global fixed income noted in a December blog post. "This may well aid in accelerating the pickup in inflation levels that already appeared underway before Nov. 8, and it likely will result in a steepening in the yield curve over time. We'll be watching closely for signals of how added spending will be financed."

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RICK RIEDER, BLACKROCK'S CHIEF INVESTMENT OFFICER

[2] "Warren Buffett Says Donald Trump Won't Derail the Economy," Fortune, December 5, 2017.

Both tax relief and spending measures face headwinds in the fiscally conservative House and Senate, so it's nowhere near certain that they will be passed. Still, if enacted, these measures would likely stimulate growth—and inflation—in an economy that is already nearing full-employment and growing at a healthy pace. In December, the Fed indicated that it would likely accelerate tightening to offset excessive growth. All of which argues for higher interest rates.

Rieder added that a more pro-business environment should be good, long-term, for corporate bonds, while other sectors like emerging markets and municipal bonds may come under pressure. For investors concerned about rising rates, inflation-protected Treasuries may provide an appealing alternative.

3. Deregulatory tumult up-ends hits DOL fiduciary rule

On February 3, 2017, President Trump signed an executive order delaying implementation of the DOL's fiduciary rule by 180 days. The rule which mandated that financial advisers adhere to a fiduciary standard, that is, making all decisions based on their clients' best interests, had been scheduled to go into effect in April 2017. It would have substantially reshaped the financial services industry by effectively banning commission-based product from retirement accounts. Now, the new executive order requires the DOL to conduct "economic and legal analysis" to determine whether the rule is likely to hurt investors or the financial services industry, by driving new litigation or increases in the price of advice.

Reaction to the executive order was mixed, with sectors expected to be hardest hit by the new rule

— including commission-based broker-dealers and marketers of commission based variable annuities — celebrating the rollback while fee-based planners and RIAs protested. The Fee Based Planning Coalition, for instance, stated that it "strongly opposes the action taken today by President Trump to halt the Department of Labor's Final Fiduciary Rule that will protect millions of Americans saving for retirement. With just two months to go before its implementation date, the President has effectively given the green light to maintain the status quo of conflicted financial advice."

Meanwhile a spokesperson for Hancock Brokerage, a seller of life, health, annuity, and long-term care insurance products, was more positive, seeing the order as "a win," but cautioning that a long-term movement towards higher fiduciary standards would probably continue regardless. Susan Cimini of Hancock Brokerage, explained, "Institutions have already began implementing their procedures on the Conflicts of Interest Ruling and many have stated that even with a delay and/or repeal of the rule they will operate under these new procedures going forward." Moreover, she said that "A fiduciary standard is still very likely to come. The SEC has stated their intent to harmonize with the DOL ruling and we expect the SEC to step in and implement a fiduciary standard regardless of whether the DOL ruling goes away."

For investors — and the advisors that work with them — the executive order will doubtless create further confusion over fiduciary roles. Independent advisors who already adhere to a fiduciary standard will likely want to redouble their marketing and communications to clients about this issues, since many of their competitors will no longer be required to meet these high standards. The playing field was about to be leveled, and now, once again, only some financial advisors are mandated to work solely in their clients' best interests.

4. Tax breaks ahead

High net worth investors can look forward to lower tax bills if the proposals outlined during the campaign are passed, with dramatic reductions in both personal and corporate tax liabilities. "Most of our private clients and prospects assume that the new Government will introduce tax relief initiatives or at least keep the status quo," said Martin Raab, a founding partner at Sugarwood Financial Partners. "We don't assume higher taxes as most of the new cabinet members are multi-millionaires who would be hurt in case of new tax rules for wealthy too."

On the personal income side, President Trump wants to streamline tax brackets from the current five to three, with a top rate of 33% applying to incomes above $112,500 for individuals and $225,000 for married couples filing jointly. The personal exemption is eliminated, but there is a big increase in the standard deduction.

Businesses would get an even bigger reduction, with the top corporate rate falling from 35% to 15% and pass-through entities like sole proprietorships and partnerships, which are currently taxed like ordinary income, would also pay at the corporate rate of 15%.

The Trump proposal also eliminates the ACA taxes levied on high earners – the 0.9% Medicare surcharge on individual incomes above $200,000 (and couples over $250,000) and the 3.8% on investment gains for these same individuals.

There is no guarantee that congress will enact President Trump's proposal as written, and most wealthy investors should probably wait to see what happens before meeting with their tax advisors to determine the impact on their own portfolios. However, lower personal income taxes should make it more affordable to convert traditional IRAs into Roth IRAs, since these conversions trigger capital gains realization. Other wealthy clients may be more willing to reduce or eliminate long-held, highly appreciated positions for diversification, or liquidity in a lower-tax climate.

5. Navigating roadblocks to global trade

President Trump ran on a platform to rethink global trade, rejecting multilateral deals like the Trans Pacific Partnership and NAFTA to try to bring American manufacturing jobs home. Many economists, though, think that trade protectionism would have a profoundly negative impact on the global economy and perhaps tip the U.S. and some of its trading partners into recession. Relations with China and Mexico, two of the United States' biggest trading partners, have grown strained lately, adding to nervousness around trade. A Bank of America Merrill Lynch survey of 176 chief investment officers, asset managers, economists, and portfolio managers in January identified trade protectionism as the number one risk to a Trump economy.[3] Martin Raab at Sugarwood says he has

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one client, a couple, who are currently establishing an alternate home base in Europe, in case a trade war brings a serious recession to the U.S. and an implosion of the global stock market.

Other market observers point to President Trump's Republican establishment picks for cabinet positions, and downplay the risks of trade protectionism. Steven Schwarzman of Blackstone Capital, who is a Trump advisor, recently noted that China's President Xi Jinping wants to avoid a trade war with the U.S., telling Bloomberg that the leader was "very positive on the long-term relationship between the countries. He was anticipating being able to work things out, as are the U.S., despite the kind of language that from time to time is employed." [4]

6. Time to beef up healthcare and retirement savings?

Even before President Trump took office, a GOP-controlled House and Senate had already begun the work of repealing the Affordable Care Act. Advisors who have self-employed or young retiree clients may wish to talk to their customers about alternatives in the post-Obamacare environment. Coverage for 2017 is unlikely to change, so clients who are already enrolled should try to schedule necessary treatments for this year. They may also wish to establish health savings accounts, if their plans are compatible, and max out contributions this year to provide a cushion against future expenses.

Few details are available about the GOP's replacement plan, but most observers expect that plans will be more expensive and less comprehensive, especially for older policy holders. Encourage your clients to save additional money if possible.

[3] "These Are the Biggest Tail Risks For Markets Right Now, Say Money Managers," by Barbara Kollmeyer, MarketWatch, January 17, 2017.

[4] China Trade Anxiety May Be 'Overdone,' Blackstone Chief Says" by Erik Schatzker and Amy Thomson, Bloomberg, January 18, 2017

7. Estate planning changes still evolving

President Trump has pledged to repeal the estate tax and add a capital gains tax on assets over $10 million left to heirs. Most experts think that changes to estate tax would have to be part of an overall tax reform package, which is sure to be contentious even in a GOP-dominated House and Senate. As a result, many experts are advising clients to sit tight until the rules are clarified. “It’s too early to see clearly what’s going on in DC,” says Raab. “We’re not expecting any immediate legal or regulatory changes in Trust planning.”

8. Renewed social conservatism

Finally, the new administration raises uncertainty for LBGTQ clients and their advisors still sorting through the complexities of planning around legal same sex marriage. Brian Thompson, a Chicago based advisor who specializes in advising this market segment says, “I do believe that things can and are being done to weaken same-sex marriage rights. Specifically, the First Amendment Defense Act, which allows all people (and corporations) to discriminate against married LGBTQ couples, as long as they are motivated by ‘religious beliefs or moral conviction.’ If this actually passes in the Republican-lead Congress and is signed by our Republican President, it will create all sorts of Constitutional conflicts that could cause wide-spread discrimination and uncertainty.”

Yet, even in this confusing environment, Thompson recommends caution and patience. “In a time of uncertainty, it’s more important than ever to have the right financial plan in place. That means making sure you’ve established your values and goals around money, taken the time to analyze your current situation (e.g., cash flow, net worth, overall financial picture), and developed a plan that allows you to get you to where you want to be through the ups and downs of societal changes.”

SEPARATING SIGNAL FROM NOISE

Thompson says that good financial planning can help nearly any client weather a changing political and market climate. “Specifically, for investing, that means knowing your risk tolerance, investing time horizon, and developing the right asset allocation and location. It is also especially important in estate planning to make sure you keep your fundamental documents (e.g., will, trust, advance health care directives, durable power of attorney) and beneficiary designations current, so that there’s no question that your spouse and family are protected,” he explains. “In short, despite the pending uncertainty, you can still protect your family with proper planning and staying diligent that you’re heading in the direction that’s best for you.”

> **“IN A TIME OF UNCERTAINTY, IT’S MORE IMPORTANT THAN EVER TO HAVE THE RIGHT FINANCIAL PLAN IN PLACE”**

A PARTNER IN WEALTH MANAGEMENT IN THE YEARS AHEAD

The election of President Donald J. Trump will likely have a profound impact on markets, tax law, the regulatory climate, and the global economy. As the new president works with the House and Senate to realize his vision, we can expect the landscape to continue to shift.

We may see uncertainty in stock prices, interest rates, tax policy, global trade agreements, and the estate tax, but the importance of protecting and preserving your clients wealth will always be indisputable.

One of the best ways to protect your clients' wealth is to work with a trust company that is not competing with you for assets under management. Partnering with an advisor-friendly company that focus strictly on trust administration, while leaving investment management to you, allows advisors to protect and secure multigenerational wealth.

Premier Trust is an advisor-friendly trust company based in Nevada staffed with trust administrators trained in wealth management issues. With 40 team members and more than 150 years combined experience in the trust business, Premier can help you grow and protect your business.

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